Weekly Commentary

MAY 23, 2011

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Short-term rates continued on a relatively stable trend during the week, with overnight, one-month, three-month, six-month and 12-month London interbank offered rates (Libor) ending the week at 0.13%, 0.19%, 0.25%, 0.40% and 0.73%, respectively. Overall, overnight rates were slightly higher due to better balances in the supply/demand equation. On Treasury-backed repurchase agreements, rates ranged between eight and nine basis points and overnight mortgage- backed repurchase agreements averaged between 10 and 11 basis points.

On the economic front, negative statistics dominated after the initial positive news from the Department of Labor that applications for unemployment dropped 29,000 during the previous week--more than expected--to reach 409,000. However, the housing market continued to struggle as the National Association of Realtors reported a decline in the purchases of previously occupied homes in the month of April. Existing home sales for April came in slightly below expectations, down 0.8%. The fact that distressed sales accounted for a large percentage added to a downward pressure on housing prices: home values were equal to recession lows. Housing starts also fell and permits declined.

In addition, April industrial production was flat and March's gain revised downward, and the Philadelphia and New York manufacturing indexes weakened on declining orders and backlogs.

While the U.S. economy has temporarily downshifted for the second time in two years, it has the potential to successfully navigate past the current soft patch later this year.

G40461-18 (5/11)

Views are as of May 23, 2011, and are subject to change based on market conditions and other factors.